AR01

Hawker Industries Limited / 1969 ANNUAL REPORT

Contents

Notice of Annual General Meeting

The Annual General Meeting of Shareholders will be held in the Ontario Room of the Royal York Hotel, Toronto, Ontario, on Friday, May 15th, 1970 at 2:30 p.m., E.D.T. A notice of the meeting, an information circular, and a proxy form are enclosed with this report to the shareholders.

Hawker Industries Limited

Head Office
7 King Street East, Toronto 1, Ontario, Canada.

Directors
R. S. Faulkner, Toronto, Ontario
A. A. Bailie, Toronto, Ontario
M. E. Davies, Toronto, Ontario
J. F. Howard, Q.C., Toronto, Ontario
J. H. Ready, Toronto, Ontario

Executive Management
R. S. Faulkner, Chairman and President
A. A. Bailie, Vice-President, Finance
I. E. Bull, Treasurer
J. H. Ready, Secretary
C. A. Haines, Assistant Secretary

Auditors
Price Waterhouse & Co., Toronto, Ontario

Transfer Agent
National Trust Company, Limited, Toronto, Ontario

Registrar
Montreal Trust Company, Toronto, Ontario

FINANCIAL DATA IN BRIEF

(In thousands of dollars except per share data)

	1969	1968
Consolidated net sales	$ 64,239	$ 64,804
Depreciation	791	811
(Loss) Income from operations before taxes	(1,950)	902
Income taxes	202	447
Net (loss) income for year (excluding extraordinary items in 1968)	(2,152)	455
Per common share	(.73)	.15
Extraordinary items charged to deficit account	—	3,599
Working capital	9,646	13,611
Capital expenditures	1,111	593
Invested in fixed assets (net)	9,937	9,637

TO THE SHAREHOLDERS:

Your directors submit herewith the accounts of Hawker Industries Limited and its consolidated subsidiaries for the year ended December 31, 1969, and report as follows:

Loss

On consolidated net sales of $64 million (1968: $65 million), the loss from operations, before taxes, was $1,950,303 in 1969, compared with an income, before taxes, of $902,478 in 1968. Had it not been for the necessity to make a provision of $2,350,000 against anticipated losses on drilling rig contracts at Halifax Shipyards, there would have been an income before taxes in 1969 of $399,697.

Income tax has been provided on the profits of the consolidated subsidiary companies, but relief for the loss sustained by the corporation is available only to the extent of the deferred income taxes which were provided in 1968 and are no longer required. Almost the whole of the loss is therefore a charge against net income.

As a result of these factors there was a consolidated net loss of $2,152,303 compared with net income of $455,012, before extraordinary items, in 1968.

Provision for Special Costs and Losses

After making provision for costs and losses ascertainable at the close of 1968, a balance of $5,333,549 remained at that date in respect of the future costs and losses which may arise on discharge of residual obligations arising out of long term contracts which were assumed from Dominion Steel and Coal Corporation, Limited and also in respect of future settlement of the value of coal assets expropriated by Cape Breton Development Corporation on March 30, 1968.

During the year, the Company sold for future delivery substantial tonnages of iron ore pellets and completed or settled other commodity obligations. The costs and losses relative to 1970 pellet deliveries and other settlements amounted to $970,208 which has been charged to the provision account. The balance of $4,363,341 at December 31, 1969 is considered to be a reasonable estimate of the balance of losses which may be sustained as a result of the remaining long term obligations.

Comment

The Canadian Bridge Division suffered from material shortages due to strikes in the steel industry, from depressed market prices, and from increased costs of completing the new bridge at Halifax which arose from unfavourable weather conditions encountered in the critical stages of erection.

Performance of the Halifax Shipyards Division was most disappointing, due to problems arising from construction of the first large drilling rig which was nearing completion at the end of the year. Major difficulties were encountered with sub-contract work, while a shortage of skilled labour affected both performance and quality of the work. Much has been done to bring about substantial improvements in the construction of the second

rig which commenced in 1969, but although considerable progress has been made, satisfactory performance has not yet been achieved. It has therefore been considered necessary to make the provisions previously referred to, against the losses anticipated on these two contracts.

The Trenton Works Division was unable to achieve its planned increase in earnings owing to the absence of freight car work for the Canadian railways in the first quarter, and to material shortages arising from the steel strike, which caused the production line to shut down for almost two months in the last half of the year. Substantial deliveries were made in the last months of the year and the Division entered 1970 with a good order book.

Dosco Overseas Engineering Limited, the United Kingdom-based subsidiary, more than doubled its sales and earnings during the year.

The Company continues to face increasing pressures from rising costs of labour, materials, and services, while at the same time there is strong competition for available work and the Government is appealing for cooperation from industry not to increase selling price levels. Nonetheless, every effort is being made to improve, substantially, the operations in 1970.

Submitted on behalf of the Board

R. S. FAULKNER
Chairman and President

Toronto, Ontario, March 26, 1970

COMMENTS ON OPERATIONS

Canadian Bridge Division

Production of fabricated steel for buildings was only slightly ahead of the 1968 level. Prices of fabricated structural steel continued to be extremely competitive and generally depressed. However, improvement in the sales of electronic structures, electric power transmission towers, and masts, raised the Division's total volume above the level of the previous year.

Construction work was completed for Canadian National Railways on Canada's largest railway lift bridge across Burrard Inlet at Vancouver, B.C. and the suspension bridge linking Halifax and Dartmouth, Nova Scotia, was virtually completed at year-end.

Halifax Shipyards Division

Work at the Shipyard in 1969 centred on the construction of a semi-submersible offshore oil drilling rig and later in the year upon the initial fabrication stages of a second unit of similar design. The rigs each weigh in excess of 10,000 tons and are the largest units ever built at the Shipyards.

The level of ship repairs declined at the Halifax yard although some Naval work was obtained against keen competition. At the Dartmouth yard, work volume declined sharply in the fourth quarter after a period of relatively high activity.

An order was obtained for the construction of a diesel engined rail car ferry for Peru where it will operate on Lake Titicaca in the Andes. The vessel will be transported in sections and assembled at the lake.

Trenton Works Division

The Division continued to feel the effect of the reduced level of freight car orders placed by Canadian railways during 1968 and was without work in its main car plant for the first quarter; in addition material shortages caused by a prolonged strike in the Canadian steel industry caused a costly disruption of manufacturing in the third quarter. The number of cars delivered fell to 1090 units. Included were tank cars, 300 mechanical refrigerator cars for Canadian National Railways and 414 of a 578-car order from the Canadian Pacific Railway for gondola coal cars of a new design. The coal cars will be used in unit train operations in Western Canada.

Production of axles for railway rolling stock increased significantly.

Delivery of deck plates for the new Halifax-Dartmouth bridge was completed. They were fabricated in conjunction with Canadian Bridge Division.

As anticipated, the rail car market showed improvement during the year. Orders received for completion in 1970 include 1000 covered hopper cars for CNR, the largest single order ever obtained by the Division, and 265 gondola cars for a Canadian rail car leasing company.

Dosco Overseas Engineering Limited

Intensive exploitation of new mining techniques by Britain's National Coal Board stimulated domestic sales of mining equipment designed and built by this subsidiary which is based in the United Kingdom.

Export sales also increased significantly and included machines supplied to Canada and Japan.

As a result, total production was more than twice the volume achieved in 1968 and required appropriate increases in both manufacturing space and staff.

At year end, the first Tracked Ripping Machine developed by the Company was delivered to the National Coal Board.

In 1970, domestic sales are expected to fall off slightly due to the U.K. Government's continuing restrictions on capital expenditures. However, further improvements in export sales are expected to compensate for this decline.

Interest in Collieries

As reported last year, the Company acquired from Dosco the assets of Old Sydney Collieries and of Acadia Coal together with 26,521 preferred shares of Dominion Coal Company, Limited (Domco) and all the common shares of that company. The assets and business of Acadia Coal were sold in 1968. On March 30, 1968, Cape Breton Development Corporation (Devco), a Crown corporation, expropriated virtually all of the operating assets of Old Sydney Collieries and those of Domco and its subsidiary companies.

Discussions on the compensation to be paid for the expropriated assets have been held with representatives of Devco. However, these discussions have not been fruitful, since only recently were we advised that the appraisals of the various assets acquired by Devco are nearing completion. We hope that Devco will promptly come forward with particulars of the compensation to be offered. In the meantime, a claim for compensation has been delivered to Devco by solicitors acting for the Company and for Domco, and the solicitors are pursuing these claims. Present indications do not suggest an early resolution of the final amount to be paid.

Auditors' Report

To the Shareholders of Hawker Industries Limited:

We have examined the consolidated balance sheet of Hawker Industries Limited as at December 31, 1969 and the consolidated statements of income and deficit and source and application of working capital for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, subject to final determination of the costs and losses referred to in Note 6 to the consolidated financial statements, these financial statements present fairly the financial position of the companies as at December 31, 1969 and the results of their operations and the source and application of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Price Waterhouse & Co.
Chartered Accountants.

Toronto, Ontario, March 20, 1970.

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
for the year ended December 31, 1969

	1969	1968
Consolidated net sales	$64,239,114	$64,804,462
Loss (income) from operations before the items shown below	877,019	(2,931,050)
Miscellaneous income	40,058	114,744
	836,961	(3,045,794)
Bank and other interest	322,802	—
Provision for depreciation	790,540	810,981
Management fees (Note 7)	—	1,332,335
	1,113,342	2,143,316
Loss (income) from operations before income taxes	1,950,303	(902,478)
Provision for income taxes (Note 8):		
Current	481,752	167,714
Deferred	(279,752)	279,752
	202,000	447,466
Net loss (income) for the year (excluding extraordinary items)	2,152,303	(455,012)
Deficit at the beginning of year	3,143,723	—
	5,296,026	(455,012)
Extraordinary items:		
Costs incurred on purchase of assets from Dominion Steel and Coal Corporation, Limited	—	98,735
Provision for special costs and losses	—	3,500,000
	—	3,598,735
Deficit at the end of year	$ 5,296,026	$ 3,143,723

See accompanying notes to consolidated financial statements.

Hawker Industries Limited and consolidated subsidiaries

CONSOLIDATED BALANCE SHEET — December 31, 1969

ASSETS	1969	1968
Current Assets:		
Cash	$ 474,829	$ 494,549
Short term investments, at cost (approximately market value)	445,091	250,000
Accounts receivable	11,747,791	8,971,065
Due from affiliated company	139,791	658,500
Due from Dominion Steel and Coal Corporation, Limited	—	5,626,876
Inventories, at lower of cost and estimated realizable value, less progress payments	11,634,596	9,126,764
Prepaid expenses	33,499	101,128
	24,475,597	25,228,882
Other Assets:		
Coal mining interests (Note 2)	1,872,718	1,872,718
Other investments, at cost	25,601	29,554
	1,898,319	1,902,272
Fixed Assets, at cost (Note 3):		
Land, buildings, machinery and equipment	29,599,367	28,730,156
Less—Accumulated depreciation	19,662,089	19,093,050
	9,937,278	9,637,106
	$36,311,194	$36,768,260

See accompanying notes to consolidated financial statements.

LIABILITIES	1969	1968
Current Liabilities:		
Bank advances (Note 4)	**$ 3,535,127**	$ 624,596
Accounts payable and accrued liabilities	**9,335,828**	10,171,885
Due to affiliated companies	**443,767**	86,547
Income and other taxes	**1,514,438**	735,045
	14,829,160	11,618,073
Provisions:		
Unfunded pensions (Note 5)	**7,614,289**	7,880,179
Special costs and losses (Note 6)	**4,363,341**	5,333,549
	11,977,630	13,213,728
Deferred Income Taxes (Note 8)	**—**	279,752
Capital Stock and Deficit:		
Capital stock —		
Common shares without nominal or par value —		
Authorized — 3,000,000 shares		
Issued — 2,960,086 shares	**14,800,430**	14,800,430
Deficit	**5,296,026**	3,143,723
	9,504,404	11,656,707
	$36,311,194	$36,768,260

Approved on behalf of the Board:

R. S. Faulkner, Director

A. A. Bailie, Director

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF WORKING CAPITAL

for the year ended December 31, 1969

	1969	1968
Net loss (income) for the year	$ 2,152,303	$ (455,012)
Non-cash items included in determination of net loss (income) –		
Depreciation	(790,540)	(810,981)
Deferred income taxes (Note 8)	279,752	(279,752)
Funds lost (provided) from operations	1,641,515	(1,545,745)
Additions to fixed assets	1,111,384	593,121
Charges to provision for unfunded pensions (Note 5)	265,890	748,481
Charges to provision for special costs and losses (Note 6)	970,208	5,416,451
Expropriated coal mining inventories reclassified to non-current assets	—	967,145
Cost incurred on purchase of assets from		
Dominion Steel and Coal Corporation, Limited	—	98,735
	3,988,997	6,278,188
Deduct:		
Fixed asset disposals	20,672	48,519
Decrease in other investments	3,953	1,977
	24,625	50,496
Decrease in working capital	3,964,372	6,227,692
Working capital at the beginning of year	13,610,809	19,838,501
Working capital at the end of year	$ 9,646,437	$13,610,809

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
for the year ended December 31, 1969

1. Financial Statements:

Hawker Industries Limited has three subsidiary companies. The consolidated financial statements include the accounts of two of these subsidiaries, both wholly-owned, but not the accounts of Dominion Coal Company, Limited (Domco), a partly-owned subsidiary. The accounts of Domco are not consolidated because the company ceased operations March 30, 1968 on the expropriation of substantially all of its assets (see note 2).

The Company commenced operations as of January 1, 1968 with the acquisition of certain assets and operations from Dominion Steel and Coal Corporation, Limited (Dosco).

2. Coal Mining Interests:

	1969	1968
Shares in subsidiary not consolidated, at cost	$ 331,514	$ 331,514
Comprising all the issued common shares and 26,521 preferred shares of Domco		
Coal mining inventories and properties	1,541,204	1,541,204
	$1,872,718	$1,872,718

At March 30, 1968 the Cape Breton Development Corporation expropriated substantially all of the assets of Domco and the major part of the coal mining inventories and properties. The compensation to be paid on the expropriations has yet to be established but if losses are incurred it is expected that they will be charged to the provision for special costs and losses (see note 6).

3. Fixed Assets:

The fixed assets have been recorded effective January 1, 1968 at the original cost to Dosco together with depreciation accumulated to that date. Subsequent additions to fixed assets are recorded at cost.

4. Bank Advances:

Bank advances are secured by a general assignment of accounts receivable and an assignment of inventories.

5. Pensions:

In accordance with previous policy, unfunded pensions paid in respect of past service during the year ended December 31, 1969 of $655,890 have been charged to the provision for unfunded pensions set aside for that purpose. Additionally, $390,000 was charged against operations and credited to the provision in recognition of the interest factor. At December 31, 1969 the present value of unfunded past service pension costs is approximately $7,700,000.

6. **Provision for Special Costs and Losses:**

On the purchase by the Company in 1968 of various assets and operations from Dosco, the Company assumed all unascertained liabilities in connection with the disengagement of Dosco from the operations of its former Sydney Works and its coal operations. Costs and losses incurred in connection with these liabilities are charged to the provision for special costs and losses set aside for that purpose. During the year ended December 31, 1969 an amount of $970,208 was charged to the provision for payments made in 1969 and for payments agreed to be made in 1970 classified as accounts payable.

The significant continuing obligations arising out of the disengagement of Dosco from the operations of its former Sydney Works involve long term contracts for the purchase of commodities commonly used in the production of iron and basic steel. It is not possible to determine accurately the eventual cost to the Company of selling these commodities since deliveries in some instances extend over a period of years during which the selling prices and the demand of potential customers will vary. In the opinion of management the balance of $4,363,341 available in the provision at December 31, 1969 is a reasonable estimate at this time of the additional special costs and losses which may be incurred, including losses which may arise from the expropriations of coal mining interests referred to in note 2.

7. **Management Fees:**

The operations acquired as of January 1, 1968 (see note 1) were carried on throughout 1968 by Dosco for the account of the Company. For the management services provided by Dosco during 1968, and for the funds of Dosco employed in the operations, agreed management fees were charged by Dosco. These arrangements were terminated as of December 31, 1968.

8. **Provision for Income Taxes:**

The provision for income taxes currently payable is applicable to the income of the consolidated subsidiary companies. Deferred income taxes provided in 1968 are no longer required and have been applied in reduction of the loss for 1969.

9. **Remuneration of Directors and Officers:**

For the year 1969 no remuneration was paid by the Company to its directors and officers.

Divisions and Principal Products

Canadian Bridge Division, Windsor, Ontario
Bridges
Fabricated structural steel for buildings
Masts
Transmission towers

Dosco Overseas Engineering Limited, Aylesbury, England
Coal mining equipment
"Dosco Dint Header"
"Dosco Roadway Cutter-Loader"

Halifax Shipyards Division, Halifax, Nova Scotia
Offshore oil drilling rig construction
Naval and merchant shipbuilding
Ship repairs

Trenton Works Division, Trenton, Nova Scotia
Heavy forgings
Industrial and mine cars
Railway axles
Railway rolling stock
Storage and pressure tanks

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